

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

# **Dearborn Heights Tax Increment Finance Authority**

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**Financial Report  
with Supplemental Information  
June 30, 2006**

# **Dearborn Heights Tax Increment Finance Authority**

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## **Contents**

<b>Report Letter</b>	<b>I</b>
<b>Management's Discussion and Analysis</b>	<b>2-5</b>
<b>Basic Financial Statements</b>	
Governmental Funds Balance Sheet/Statement of Net Assets	6
Statement of Governmental Funds Revenue, Expenditures, and Changes in Fund Balances/Statement of Activities	7
Notes to Financial Statements	8-16
<b>Required Supplemental Information</b>	<b>17</b>
Budgetary Comparison Schedule - Operating Fund	18



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## Independent Auditor's Report

To the Board of Directors  
Dearborn Heights Tax Increment  
Finance Authority  
Dearborn Heights, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Dearborn Heights Tax Increment Finance Authority (a component unit of the City of Dearborn Heights, Michigan) as of and for the year ended June 30, 2006, which collectively comprise the Tax Increment Finance Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Dearborn Heights Tax Increment Finance Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Dearborn Heights Tax Increment Finance Authority as of June 30, 2006 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule (identified in the table of contents) are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Plante & Moran, PLLC*

October 5, 2006



A worldwide association of independent accounting firms

# **Dearborn Heights Tax Increment Finance Authority**

## **Management's Discussion and Analysis**

Our discussion and analysis of Dearborn Heights Tax Increment Finance Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Authority's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- Captured property tax revenue, the Authority's largest revenue source, increased by approximately 8 percent from the prior year.
- The largest taxpayer in the Authority's district was the Central Wayne County Sanitation Authority. The incinerator owned by the Authority is no longer in operation as the partnership contracted by the Central Wayne County Sanitation Authority to operate the facility filed bankruptcy two years ago. Due to the loss of this taxpayer, the taxable value of property captured by the Authority decreased approximately \$14.4 million. Even with this in mind, the Authority is still able to function and will be able to process the bonds that it has obtained for the Justice Center. Future plans for the Central Wayne County Sanitation Authority property are still in the planning stages.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide financial statements by providing information about the Authority's funds.

# **Dearborn Heights Tax Increment Finance Authority**

## **Management's Discussion and Analysis (Continued)**

### **The Authority as a Whole**

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Current assets	\$ 3,687,617	\$ 4,823,011
Noncurrent assets	<u>24,924,320</u>	<u>25,729,259</u>
Total assets	28,611,937	30,552,270
<b>Liabilities</b>		
Current liabilities	1,450,028	1,607,408
Long-term liabilities	<u>23,405,000</u>	<u>24,455,000</u>
Total liabilities	<u>24,855,028</u>	<u>26,062,408</u>
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	469,320	254,259
Unrestricted	<u>3,287,589</u>	<u>4,235,603</u>
Total net assets	<u><b>\$ 3,756,909</b></u>	<u><b>\$ 4,489,862</b></u>

The Authority's total net assets decreased from 2005 by approximately \$733,000, or 16 percent.

# Dearborn Heights Tax Increment Finance Authority

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year and as compared to the prior year:

	2006	2005
<b>Revenue</b>		
Property taxes	\$ 2,995,864	\$ 2,778,315
Interest and other	442,281	376,684
Total revenue	3,438,145	3,154,999
<b>Program Expenses</b>		
Public safety	1,151,357	848,067
Public works	1,488,740	1,391,044
Economic development	77,312	136,932
Recreation	17,300	45,434
Rent expense	161,302	213,707
Interest on long-term debt	1,275,087	1,207,057
Total program expenses	4,171,098	3,842,241
<b>Change in Net Assets</b>	<b>\$ (732,953)</b>	<b>\$ (687,242)</b>

Total revenue for the Authority increased approximately \$283,000, or 9 percent, from 2005. This is due to increase in property taxes captured as well as better investment rates realized on cash balances. Total expenses increased approximately \$329,000, or 9 percent. This is due primarily to various improvements incurred in 2006, including improvements related to the fire station.

### The Authority's Funds

The fund financial statements provide detailed information about the funds of the Authority, not the Authority as a whole. The board of directors creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as bond proceeds. The Authority's funds for 2006 include the Operating Fund, Capital Projects Fund, and Debt Service Fund.

# **Dearborn Heights Tax Increment Finance Authority**

## **Management's Discussion and Analysis (Continued)**

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### **Operating Fund Budgetary Highlights**

The Operating Fund of the Authority accounts for all of the annual projects as planned by the board of directors. The Operating Fund spent approximately \$4.0 million in the current year, which was approximately \$1.8 million less than budgeted. This is due primarily to various improvements that were budgeted for but not incurred in the current fiscal year due to timing or other issues.

### **Capital Asset and Debt Administration**

The Authority spent approximately \$134,000 on police and court facility-related expenditures in the current year that were capitalized. In addition, the Authority paid approximately \$1.22 million in interest on the related outstanding bonds in the current year.

### **Economic Factors and Next Year's Budgets and Rates**

The Authority's budget for next year calls for minor changes and, as always, the Authority will work hard to maintain a fair budget.

### **Contacting the Authority's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of Dearborn Heights Tax Increment Finance Authority's finances and to show the Tax Increment Finance Authority's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Authority at 25637 Michigan Avenue, Dearborn Heights, MI 48125 or the City of Dearborn Heights' finance office at 6045 Fenton, Dearborn Heights, MI 48127.



# Dearborn Heights Tax Increment Finance Authority

## Governmental Funds Balance Sheet/Statement of Net Assets June 30, 2006

	Operating Fund	Capital Projects Fund	Debt Service Fund	Total	Adjustments (Note 3)	Government- wide Statement of Net Assets
<b>Assets</b>						
Cash and cash equivalents (Note 4)	\$ 3,415,530	\$ 206,379	\$ 29,749	\$ 3,651,658	\$ -	\$ 3,651,658
Due from other funds	2,530	-	-	2,530	(2,530)	-
Due from the City	10,277	-	-	10,277	-	10,277
Due from other governmental units	25,682	-	-	25,682	-	25,682
Capital assets not being depreciated (Note 5)	-	-	-	-	2,767,640	2,767,640
Capital assets being depreciated (Note 5)	-	-	-	-	22,156,680	22,156,680
<b>Total assets</b>	<b>\$ 3,454,019</b>	<b>\$ 206,379</b>	<b>\$ 29,749</b>	<b>\$ 3,690,147</b>	24,921,790	28,611,937
<b>Liabilities</b>						
Accounts payable	\$ 64,314	\$ 79,806	\$ -	\$ 144,120	-	144,120
Accrued liabilities	-	-	-	-	249,882	249,882
Due to other funds	-	-	2,530	2,530	(2,530)	-
Due to the City	6,026	-	-	6,026	-	6,026
Long-term debt (Note 7):						
Due within one year	-	-	-	-	1,050,000	1,050,000
Due in more than one year	-	-	-	-	23,405,000	23,405,000
<b>Total liabilities</b>	<b>70,340</b>	<b>79,806</b>	<b>2,530</b>	<b>152,676</b>	<b>24,702,352</b>	<b>24,855,028</b>
<b>Net Assets</b>						
Fund balances - Unreserved -						
Designated for:						
Capital projects (Note 8)	1,631,565	126,573	-	1,758,138	(1,758,138)	
Debt service (Note 8)	1,477,368	-	27,219	1,504,587	(1,504,587)	
Other (Note 8)	274,746	-	-	274,746	(274,746)	
<b>Total fund balances</b>	<b>3,383,679</b>	<b>126,573</b>	<b>27,219</b>	<b>3,537,471</b>	<b>(3,537,471)</b>	
<b>Total liabilities and net assets</b>	<b>\$ 3,454,019</b>	<b>\$ 206,379</b>	<b>\$ 29,749</b>	<b>\$ 3,690,147</b>		
Invested in capital assets - Net of related debt					469,320	469,320
Unrestricted					3,287,589	3,287,589
<b>Total net assets</b>					<b>\$ 3,756,909</b>	<b>\$ 3,756,909</b>

# Dearborn Heights Tax Increment Finance Authority

## Statement of Governmental Funds Revenue, Expenditures, and Changes in Fund Balances/Statement of Activities Year Ended June 30, 2006

	Operating Fund	Capital Projects Fund	Debt Service Fund	Total	Adjustments (Note 3)	Government- wide Statement of Activities
<b>Revenues</b>						
Property taxes	\$ 2,995,864	\$ -	\$ -	\$ 2,995,864	\$ -	\$ 2,995,864
Interest and other	158,897	10,857	272,527	442,281	-	442,281
Total revenues	3,154,761	10,857	272,527	3,438,145	-	3,438,145
<b>Expenditures/Expenses</b>						
Public works:						
Administration	238,925	-	-	238,925	-	238,925
Contingency	162,229	-	-	162,229	-	162,229
Water main replacement	562,140	-	-	562,140	-	562,140
DPW improvements	10,056	-	-	10,056	-	10,056
Depreciation	-	-	-	-	200,000	200,000
Catch basin repairs	72,634	-	-	72,634	-	72,634
Gulley Road improvements	237,672	-	-	237,672	-	237,672
Beech Daly improvements	3,814	-	-	3,814	-	3,814
Right of Way maintenance and repair	1,270	-	-	1,270	-	1,270
Public safety:						
Crime prevention officer	30,000	-	-	30,000	-	30,000
Property management inspector	29,040	-	-	29,040	-	29,040
Justice center improvements	31,498	-	-	31,498	-	31,498
Fire station improvements	319,254	-	-	319,254	-	319,254
Depreciation	-	-	-	-	739,321	739,321
Recreation - Daly Park improvements	17,300	-	-	17,300	-	17,300
Economic development:						
Westwood School drug information program	2,159	-	-	2,159	-	2,159
Industrial Park improvements	75,153	-	-	75,153	-	75,153
Capital outlay - Police building	-	136,626	-	136,626	(134,382)	2,244
Rent expense	161,302	-	-	161,302	-	161,302
Debt service:						
Principal	375,000	-	645,000	1,020,000	(1,020,000)	-
Interest	1,046,413	-	237,591	1,284,004	(8,917)	1,275,087
Total expenditures/expenses	3,375,859	136,626	882,591	4,395,076	(223,978)	4,171,098
<b>Excess of Expenditures Over Revenues</b>	(221,098)	(125,769)	(610,064)	(956,931)	223,978	(732,953)
<b>Other Financing Sources (Uses)</b>						
Transfers in	-	-	611,125	611,125	-	611,125
Transfers out	(611,125)	-	-	(611,125)	-	(611,125)
Total other financing sources (uses)	(611,125)	-	611,125	-	-	-
<b>Net Change in Fund Balances</b>	(832,223)	(125,769)	1,061	(956,931)	223,978	(732,953)
<b>Fund Balances/Net Assets - July 1, 2005</b>	4,215,902	252,342	26,158	4,494,402	(4,540)	4,489,862
<b>Fund Balances/Net Assets - June 30, 2006</b>	<u>\$ 3,383,679</u>	<u>\$ 126,573</u>	<u>\$ 27,219</u>	<u>\$ 3,537,471</u>	<u>\$ 219,438</u>	<u>\$ 3,756,909</u>

# **Dearborn Heights Tax Increment Finance Authority**

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**Notes to Financial Statements  
June 30, 2006**

## **Note I - Summary of Significant Accounting Policies**

The accounting policies of Dearborn Heights Tax Increment Finance Authority (the "Authority") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used:

### **Reporting Entity**

Dearborn Heights Tax Increment Finance Authority is a component unit of the City of Dearborn Heights, Michigan and is included in the general purpose financial statements of the City of Dearborn Heights, Michigan. The Authority was formed under Act 450 of the Public Acts of 1980 to develop southwest Dearborn Heights. A development plan was adopted that is financed by property tax revenue. The accompanying financial statements present the Authority.

### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the governmental activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# **Dearborn Heights Tax Increment Finance Authority**

## **Notes to Financial Statements June 30, 2006**

### **Note I - Summary of Significant Accounting Policies (Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The government reports the following major governmental funds:

**Operating Fund** - The Operating Fund is the Authority's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Capital Projects Fund** - The Capital Projects Fund accounts for the construction of the police and court facility along with contributions toward the construction of the John F. Kennedy Library and other improvements within the City.

**Debt Service Fund** - The Debt Service Fund accounts for debt payments made on certain outstanding debt balances of the Authority.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

# **Dearborn Heights Tax Increment Finance Authority**

## **Notes to Financial Statements June 30, 2006**

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds."

**Capital Assets** - Capital assets, which include property and infrastructure assets (e.g., roads), are reported in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Building and improvements and roads are depreciated using the straight-line method over the following useful lives:

Building and improvements	5-50 years
Roads	25 years

**Long-term Obligations** - In the government-wide financial statements, long-term debt is reported as a liability. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

# **Dearborn Heights Tax Increment Finance Authority**

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## **Notes to Financial Statements June 30, 2006**

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### **Note 2 - Stewardship, Compliance, and Accountability**

**Budgetary Information** - Annual budgets are adopted for the Operating Fund on an activity basis. Annual budgets are not adopted for the Capital Projects or Debt Service Funds. All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2006 has not been calculated.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that operating transfers have been included in "revenue" and "expenditure" categories, rather than "other financing sources (uses)."

The budget process begins in December and January after the TIFA administrator meets with the assessor and treasurer to determine the estimated revenue for the new fiscal year.

The TIFA administrator contacts various city department heads to determine any needs for individual departments. Proposed projects and/or continuation projects are discussed with the department head.

A proposed budget is prepared by the administrator based on the TIFA finance and development plan. This proposed budget is then discussed with the mayor for his input and suggestions.

The proposed budget is then presented to the TIFA board for discussion. If there are any changes to the proposed budget, they are made at this time. The TIFA board is then presented with the budget for adoption contingent upon the City Council's concurrence.

The budget is then presented to the City Council for adoption pursuant to the State TIFA Act. Every attempt is made to have the TIFA budget adopted around the time that the city budget is adopted in June.

# Dearborn Heights Tax Increment Finance Authority

## Notes to Financial Statements June 30, 2006

### Note 2 - Stewardship, Compliance, and Accountability (Continued)

In July or August, the TIFA administrator meets with the city treasurer to determine the final and actual TIFA tax capture (revenue) as presented by the Michigan Treasury Department. The TIFA budget is amended as needed and presented to the TIFA board for approval contingent upon the City Council's concurrence. The City Council is then presented with the amended budget for approval.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the current year, the Authority incurred expenditures that were in excess of the amounts budgeted, as follows:

	Budget	Actual
Transfers out	\$ -	\$ 611,125
Water main replacement	539,142	562,140

The transfers out relate to bond payments and were budgeted as a debt service expenditure. The unfavorable variance for water main replacement costs relate to the timing of the expenditures. The excess expenditures were included in the budget for the next fiscal year but took place in the current year.

### Note 3 - Adjustments

Total fund balances and the net change in fund balances of the Authority's governmental funds differ from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the economic focus of the statement of the governmental fund balance sheet.

# **Dearborn Heights Tax Increment Finance Authority**

## **Notes to Financial Statements June 30, 2006**

### **Note 3 - Adjustments (Continued)**

The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

<b>Total Fund Balance - Modified Accrual Basis</b>	\$ 3,537,471
Amounts reported in the statement of net assets are different because:	
Capital assets are not financial resources and are not reported in the funds	24,924,320
Long-term liabilities and accrued interest are not due and payable in the current period and are not reported in the funds	<u>(24,704,882)</u>
<b>Total Net Assets - Full Accrual Basis</b>	<b>\$ 3,756,909</b>
<b>Total Change in Fund Balance - Modified Accrual Basis</b>	<b>\$ (956,931)</b>
Amounts reported in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	134,382
Depreciation	<u>(939,321)</u>
Governmental funds report interest expense based on amounts paid in cash during the fiscal year; on the statement of activities, interest expense is expensed based upon accrued expense	8,917
Repayment of bond principal is an expenditure in the governmental funds, but is not reported as an expense in the statement of activities (where it reduces debt)	<u>1,020,000</u>
<b>Total Change in Net Assets - Full Accrual Basis</b>	<b>\$ (732,953)</b>

### **Note 4 - Deposits and Investments**

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Authority is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The governing body has designated four banks for the deposit of Authority funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bank accounts and CDs, but not the remainder of state statutory authority as listed above.



# Dearborn Heights Tax Increment Finance Authority

## Notes to Financial Statements June 30, 2006

### Note 4 - Deposits and Investments (Continued)

Dearborn Heights Tax Increment Finance Authority deposits and investment policy is in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements as cash and cash equivalents. The entire balance relates to bank deposits (checking accounts, savings accounts, and certificates of deposit) and is, therefore, subject to the following risk:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had \$3,527,743 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 5 - Capital Assets

Capital asset activity of the Authority's governmental activities was as follows:

	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land	\$ 2,767,640	\$ -	\$ -	\$ 2,767,640
Capital assets being depreciated:				
Buildings and improvements	21,370,796	134,382	-	21,505,178
Roads	5,000,000	-	-	5,000,000
Subtotal	26,370,796	134,382	-	26,505,178
Accumulated depreciation:				
Buildings and improvements	1,209,177	739,321	-	1,948,498
Roads	2,200,000	200,000	-	2,400,000
Subtotal	3,409,177	939,321	-	4,348,498
Net capital assets being depreciated	22,961,619	(804,939)	-	22,156,680
Net capital assets	\$ 25,729,259	\$ (804,939)	\$ -	\$ 24,924,320

# Dearborn Heights Tax Increment Finance Authority

## Notes to Financial Statements June 30, 2006

### Note 5 - Capital Assets (Continued)

Depreciation expense was charged to the public works and public safety programs as it relates to roads and the police and court facility.

### Note 6 - Interfund Receivables, Payables, and Transfers

The Debt Service Fund owed the Operating Fund \$2,530 at June 30, 2006. In addition, the Operating Fund transferred \$611,125 to the Debt Service Fund to cover current year principal and interest expense payments.

### Note 7 - Long-term Debt

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government.

Long-term obligation activity can be summarized as follows:

	Matures	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities</b>							
General obligation bonds:							
Limited Tax Development Bonds	2009	5.70%-6.30%	\$ 2,050,000	\$ -	\$ 500,000	\$ 1,550,000	\$ 500,000
Limited Tax Development Bonds	2019	4.75%-5.00%	2,775,000	-	145,000	2,630,000	150,000
Tax Increment Bonds, Series 2001-A	2031	4.25%-5.00%	20,650,000	-	375,000	20,275,000	400,000
Total general obligations			\$ 25,475,000	\$ -	\$ 1,020,000	\$ 24,455,000	\$ 1,050,000

Annual debt service requirements to maturity for the above bond obligations are as follows:

	Governmental Activities		
	Principal	Interest	Total
2007	\$ 1,050,000	\$ 1,173,760	\$ 2,223,760
2008	1,110,000	1,117,086	2,227,086
2009	1,140,000	1,057,639	2,197,639
2010	645,000	1,012,043	1,657,043
2011	680,000	983,403	1,663,403
2012-2016	4,095,000	4,397,328	8,492,328
2017-2021	4,610,000	3,369,809	7,979,809
2022-2026	4,900,000	2,186,250	7,086,250
2027-2031	6,225,000	818,125	7,043,125
Total	\$ 24,455,000	\$ 16,115,443	\$ 40,570,443

# Dearborn Heights Tax Increment Finance Authority

## Notes to Financial Statements June 30, 2006

### Note 8 - Designated Fund Balance

The fund balance designations of the Operating Fund are as follows:

Westwood School	\$ 120,000
Industrial Park	323,301
Water main	326,030
Fire department	160,204
Justice Center improvements	5,685
Tree trimming	130
Gulley Road	239,800
Daly Park	8,000
Sewer lining	166,360
Manhole/catch basins	26,062
Beech Daly improvements	8,079
Library improvements	209,069
DPW improvements	38,845
Total capital improvements	1,631,565
Debt service - Acquisition bond	1,477,368
Administration	40,000
Contingency	200,000
Westwood drug education	3,000
Ordinance officer	15,000
Right of way	1,746
Emergency management	15,000
Total other	274,746
Total fund balance	<u>\$ 3,383,679</u>

### Note 9 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, and errors and omissions. The City has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past five fiscal years.

## **Required Supplemental Information**

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# Dearborn Heights Tax Increment Finance Authority

## Required Supplemental Information Budgetary Comparison Schedule - Operating Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 4,215,902	\$ 4,215,902	\$ 4,215,902	\$ -
Resources (inflows):				
Property taxes	5,707,889	5,707,889	2,995,864	(2,712,025)
Interest and other	89,245	89,245	158,897	69,652
Total resources (inflows)	5,797,134	5,797,134	3,154,761	(2,642,373)
Charges to appropriations (outflows):				
Public works:				
Administration	419,037	419,037	238,925	180,112
Contingency	290,305	290,305	162,229	128,076
Water main replacement	539,142	539,142	562,140	(22,998)
DPW improvements	80,800	80,800	10,056	70,744
Beech Daly Road water main extension	8,080	8,080	3,814	4,266
Tree trimming	25,130	25,130	-	25,130
Storm sewer cleaning and lining	166,360	166,360	-	166,360
Catch basin repairs	76,062	76,062	72,634	3,428
Gulley Road improvements	238,328	238,328	237,672	656
Right of way maintenance and repair	1,746	1,746	1,270	476
Public safety:				
Crime prevention officer	30,000	30,000	30,000	-
Property management inspector	44,067	44,067	29,040	15,027
Sirens	15,000	15,000	-	15,000
Justice center improvements	35,685	35,685	31,498	4,187
Fire station improvements	320,346	320,346	319,254	1,092
Recreation - Daly Park improvements	25,143	25,143	17,300	7,843
Economic development:				
Westwood School drug information program	114,941	114,941	2,159	112,782
Industrial Park improvements	453,301	453,301	75,153	378,148
Debt service - Interest and principal	2,913,661	2,913,661	1,582,715	1,330,946
Transfers out	-	-	611,125	(611,125)
Total charges to appropriations (outflows)	5,797,134	5,797,134	3,986,984	1,810,150
<b>Fund Balance - End of year</b>	<b>\$ 4,215,902</b>	<b>\$ 4,215,902</b>	<b>\$ 3,383,679</b>	<b>\$ (832,223)</b>